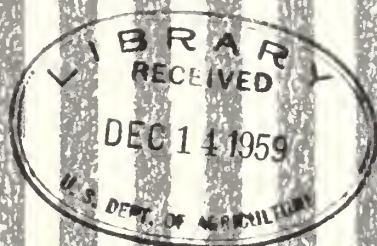


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Prospects for Foreign Trade in



COTTON

Foreign Agricultural Service
UNITED STATES DEPARTMENT OF AGRICULTURE
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CONTENTS

	Page
The outlook for cotton	1
World cotton situation, 1958-59.....	1
Stocks	2
Production	2
Supply	3
Trade and consumption.....	3
Factors affecting export outlook for U.S. cotton	5
Production and export availabilities.....	5
Foreign consumption.....	7
Competition from man-made fibers	8
Foreign economic activity.....	9
Foreign exchange availability	10
Actions of other governments	11
Prices.....	12
Domestic developments	14
Building world markets for U.S. cotton.....	15
Export programs.....	15
Market promotion programs.....	16
Market information and services.....	18
Market surveys.....	19
Technical services	19
Marketing research	19

PROSPECTS FOR FOREIGN TRADE IN COTTON

THE OUTLOOK FOR COTTON

The 1958-59 season is one in which some reversals will take place in recent world cotton supply-demand relationships. World production is resuming the strong postwar upward trend, following moderate decreases during the past 2 years. Because of this upturn in production and recent declines in world consumption, cotton production this season will exceed requirements for the first time in 3 years. Therefore, prices will weaken, trade will be smaller, and carryover stocks will increase.

The longer-term outlook for cotton is more promising. Larger supplies and perhaps more stable prices at lower levels plus population increases and generally improved economic conditions are expected to promote increased consumption of cotton. Improvement in cotton fabric finishes, development of new products, and promotional programs will help maintain cotton's dominant position in the world's markets for apparel, household, and industrial fiber products.

The resumption in 1958-59 of the upward trend in world cotton production, especially in foreign countries, has come at a time when a steady increase in cotton consumption was being slowed in foreign exporting countries and reversed in major importing countries. A textile recession, occurring a year or so later than in the United States, weakened consumer demand, piled up textile inventories, stagnated the cotton market, and pushed prices for some foreign growths to postwar low levels. As a result, cotton importers limited purchases to nearby needs and world trade this season, despite substantial price drops for foreign growths, will decline by about a million bales. Leading the decline will be U.S. exports, which, at about 3.5 million bales, will be smaller than in 1957-58 by at least 2.2 million bales.

For another year or so at least, cotton production in foreign countries is expected to increase, but probably at more moderate rates. U.S. production will be larger in 1959. Stimulated by skyrocketing prices after the Korean outbreak and by the maintenance of U.S. export prices above world levels for a period after the prices of other growths had declined, the production of cotton has assumed increasing importance in many foreign countries as a cash crop and as an important earner of needed foreign exchange. Supplies in exporting countries are therefore likely to be at fairly high levels in the years immediately ahead.

Over a longer period, the assumptions of increased population, improved economic conditions, lower and more stable cotton prices, and plentiful cotton supplies foreshadow increased cotton trade and consumption. However, to achieve a closer balance between supply and disappearance, some cutback in plans for increasing production may be found necessary in countries that cannot maintain production incentives and large stocks of cotton. The total demand for cotton and cotton's competitive position with man-made fibers will be improved by increased research; more effective market development; promotional programs, technical assistance, and aid programs; and improvements in cotton quality and merchandising. As a leader in all of these activities, and as the world's largest producer, consumer, and exporter of cotton, the United States can be expected to participate to a major extent in the world trade in cotton.

THE 1958-59 WORLD COTTON SITUATION

In 1958-59, for the first time in 3 years, world cotton production will exceed world consumption, and a small increase in world carryover is expected. Although world cotton stocks at the beginning of the season, estimated at 21.5 million bales, were about 1.7 million below those of a year earlier, an increase of about 1.9 million bales in world production over last year's crop is predicted. Moreover, total consumption of cotton in

1958-59 may be stabilized or down slightly from 1957-58. Thus the carryover will show an increase at year's end (July 31, 1959) as a result of larger production and slightly lower consumption, in spite of considerably smaller beginning stocks.

World trade in 1958-59 is expected to be around 13 million bales, compared with 14 million in 1957-58 and 15.8 million in 1956-57. Important factors influencing the slackening demand for cotton include the far reaching effects of the widespread economic recession; large inventories of textiles abroad; the pressure from increased supplies because of larger foreign crops in 1958-59 and prospective further increases in 1959-60; and the consequent weakening of prices.

As larger supplies became imminent in the spring of 1958 and demand for textiles slackened, prices of the upland-type cottons weakened; declines of as much as 4 or 5 cents per pound occurred for certain qualities of foreign upland-type cotton. This brought prices for some growths and qualities to post-World War II lows. Substantially greater price declines took place in foreign extra-long staple cotton as demand slackened in the face of record high supplies resulting largely from increased production in major producing countries.

There appear to be good reasons for expecting improvement on the demand side during the second half of the 1958-59 season. Industrial activity has remained at relatively high levels, and gold and dollar reserves appear to be in good shape in most major importing countries. As large inventories of textiles are worked off, lower cotton prices and the assurance of plentiful supplies are expected to stimulate trade. The recent announcement by USDA that carrying charges will not be added to CCC sales prices for export this season helped to stabilize the market. Over a longer term, however, producing countries may find it necessary to review their cotton policies if generally lower prices are not to be an inevitable consequence of the continued increases in production that appear in store.

Stocks

World cotton stocks at the beginning of the 1958-59 season, tentatively placed at 21.5 million bales, were 1.7 million bales lower than a year earlier, and at the lowest level since 1954, principally because of a 2.6-million-bale decline in the U. S. carryover from August 1, 1957. The carryover was up about 600,000 bales in foreign Free World exporting countries and about 400,000 in the Communist areas, but showed a slight decline in foreign Free World importing countries. Most of the stock increases were in India, Mexico, Egypt, and the Central American countries, along with the U.S.S.R. and Mainland China. Stocks were lower in Sudan, mainly because of the poor crop of 1957.

Production

World cotton production in 1958-59, estimated at 42.1 million bales, is only 600,000 below the record crop of 1955-56, and is 1.8 million above a year earlier, as shown in table 1. This estimate exceeds the 1950-54 average by 4.9 million bales, or 13 percent, and is 1.1 million above the 1953-57 average. There has been a downward trend in U. S. production since the 16.5 million-bale crop of 1953-54, while at the same time foreign production has trended upward, with an average annual increase of nearly 900,000 bales, or 3 percent. Although U. S. production in 1958-59 is near the average for the 5 years 1945-49, total foreign production is more than 2-1/4 times that average. Estimated production in the foreign Free World this year is nearly double the 1945-49 average, while production in Communist areas has nearly tripled.

Since World War II, the share of U. S. production in the world total has decreased, falling to an average of 46 percent during 1945-49, to 38 percent during 1950-54, and to about 27 percent in the last 2 years. Production increases abroad have been general, including numerous small countries and countries where cotton represents a fairly new crop. Considerable impetus came in 1950 and 1951 as a result of the extremely high prices which followed the Korean War outbreak. Many countries are now striving to be-

TABLE 1.--Cotton production in the United States, foreign countries, and World selected periods, 1945 to date

Year beginning August 1	World total	Foreign countries			United States	
		Total	Free World	Communist	Quantity	Share of world total
	<i>Million bales¹</i>	<i>Million bales¹</i>	<i>Million bales¹</i>	<i>Million bales¹</i>	<i>Million bales¹</i>	<i>Percent</i>
Average: 1945-49.....	25.7	13.8	9.3	4.5	11.9	46
1950-54.....	37.2	23.2	13.8	9.4	14.0	38
Annual:						
1955.....	42.7	28.0	16.1	11.9	14.7	34
1956.....	41.0	28.0	15.7	12.3	13.0	32
1957 ²	40.3	29.3	16.7	12.6	11.0	27
1958 ³	42.1	30.6	17.6	13.0	11.5	27

¹ Bales of 478 pounds net weight in 1945 and 480 pounds thereafter, except that U. S. figures are ginnings in season in running bales.

² Preliminary.

³ USDA crop report as of December 1, 1958, and estimates for foreign countries.

come self-sufficient in cotton; in addition, some producers have found cotton to be an important cash crop and governments have found it to be a major earner of foreign exchange.

Supply

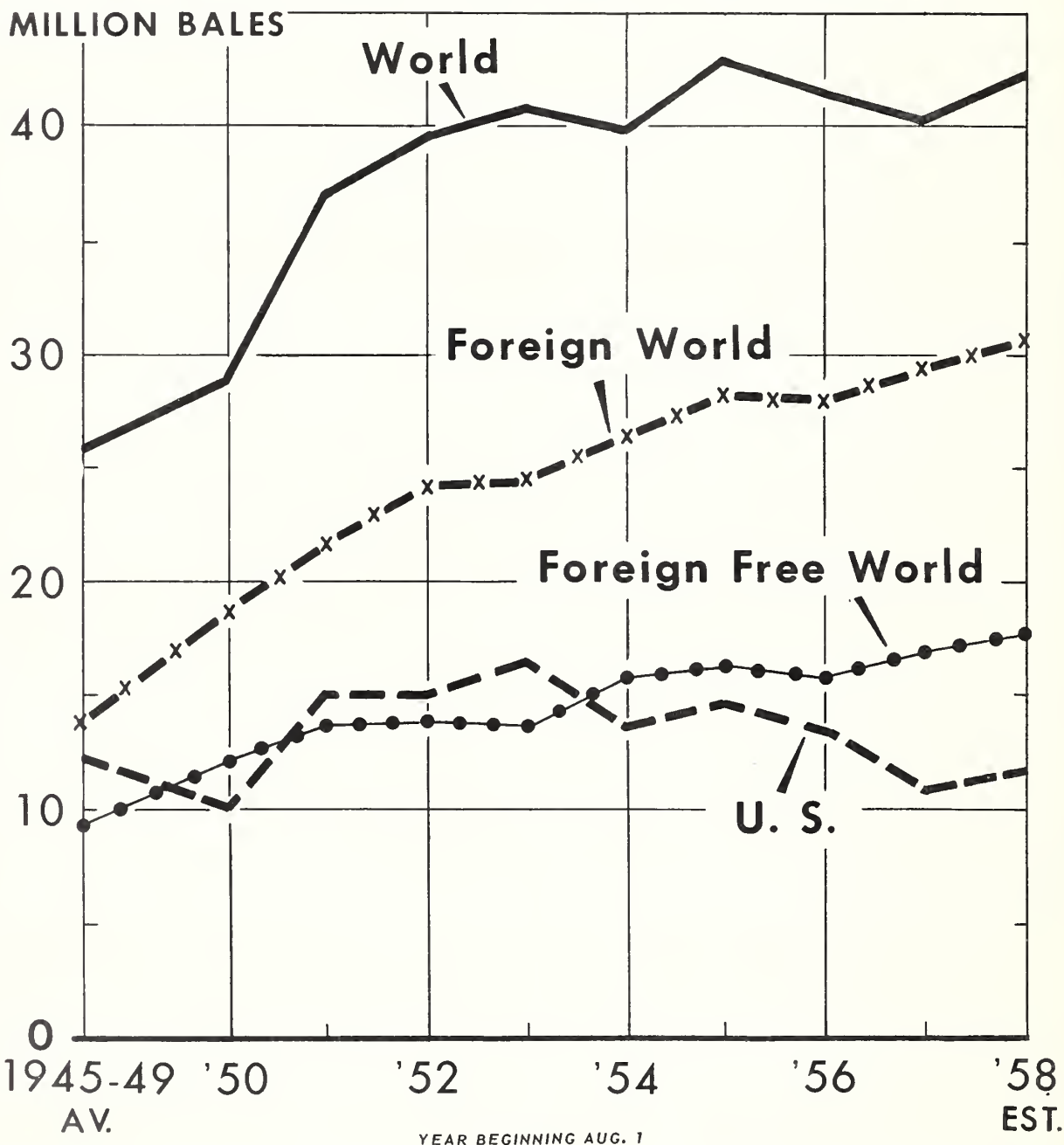
The reduction in world stocks of 1.7 million bales between August 1, 1957, and August 1, 1958, was more than offset by a production increase of 1.8 million bales. As a consequence, the world supply of cotton this season is expected to exceed that of 1957-58 by about 200,000 million bales. Supply in the United States in 1958-59 is lower than a year earlier by 2.1 million bales and is below the record high of 27.5 million in 1956-57 by 7.3 million bales, or 27 percent. Except for 1956-57, however, the supply of foreign cotton has shown constant increases, with the current year's supply of 43.4 million bales exceeding the 1954-57 average by 4.3 million bales, or more than 11 percent. The 1958-59 supply in foreign Free World countries will be at an alltime high of around 27.3 million bales. Supplies in Communist countries will also be at a new high of at least 16.1 million bales, exceeding the 1954-57 average by 2 million bales or more.

Trade and Consumption

World trade in cotton during 1958-59 is estimated at about 13 million bales, down from 1957-58 by 1 million bales, or 7 percent. This figure is about 800,000 bales below the 1953-57 average and 3 million bales below the postwar high of 15.8 million bales in 1956-57. Of world production moving in international trade, the current season's exports represent 31 percent, compared with 34 percent during the period 1953-57.

Almost all of this season's expected decline in exports will occur in the United States, where exports of about 3.5 million bales will be about 40 percent below 1957-58 exports of 5.7 million. Present indications are that exports from foreign Free World countries may increase from 6.9 million bales in 1957-58 to 7.6 million this year. Exports from Communist countries, mostly the U.S.S.R. and China--always difficult to estimate because of meager statistical information and the important influence of political considerations--

FOREIGN COTTON PRODUCTION INCREASES AS U. S. DECLINES



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may show some decline if the USSR crop falls below earlier expectations because of lateness, or if the proportion of low qualities is increased by early frost or unfavorable harvesting weather.

U.S. exports in 1957-58 of 5.7 million running bales were the second largest since 1949-50, although considerably below the 23-year high of 7.6 million in 1956-57. This relatively favorable level of exports in 1957-58 was associated with continued competitive pricing for export, a relatively high level of foreign consumption, and fairly low beginning stocks in most exporting countries. At least during the early part of the 1958-59 season, these favorable factors influencing U.S. exports were somewhat reversed, although there are some indications that export demand may improve later in the season, depending on price relationships. Based on these factors, on sales thus far by the Commodity Credit Corporation for export, on the slow movement of U.S. cotton to date, especially of higher grades, and on prospective larger supplies of cotton this year and in 1959, U.S. exports this season will probably be around 3.5 million bales.

World cotton consumption in 1958-59 is expected to show some further decline from the 41.9-million-bale level of 1957-58, possibly to 41.7 million or slightly below. This would be some 600,000 bales lower than the record in 1956-57. In the United States, consumption is estimated at or slightly above the 8 million bales used in 1957-58. The strong uptrend of consumption in foreign exporting countries and in the Communist areas during recent years is expected to continue but at a slower rate. Consumption in foreign Free World exporting countries may increase from 4.4 million and 4.5 million bales in the past 2 years to around 4.6 million. About the same or possibly some larger increase may be expected in Communist countries, from around 13.5 million bales in 1957-58 to 13.7 million or more in 1958-59. Most, if not all, of the expected leveling off or decline in consumption will take place in foreign importing countries, including such major consumers as Japan, the United Kingdom, India, and France.

FACTORS AFFECTING THE EXPORT OUTLOOK FOR U. S. COTTON

The level of cotton exports from the United States in any given year is influenced by a large number of interrelated factors, only a comparatively few of which will be treated in any detail in this part of the report. Some of the factors are dealt with by assumption, others by projection of trends. Should the "look forward" centering on 1965 be borne out, it would mean a level of cotton exports from the United States that would compare favorably with those of recent years.

Except for the sections on production and domestic developments, this part of the report deals only with economic factors in foreign countries. Developments in the United States influence the advantage taken of opportunities to develop and maintain export markets for U.S. cotton. With this in mind, anyone interested in U.S. cotton exports must recognize the necessity of (1) reliable supplies of the qualities of cotton for which there is demand, (2) sound marketing practices, (3) research and sales promotion to help cotton forge ahead despite the keenest competition from man-made fibers, (4) policies that enable would-be customers for cotton to obtain the foreign exchange necessary for its purchase, and (5) prices that make U.S. cotton fairly priced in relation to other growths and competitive materials. A high standard of performance in meeting these requirements demands continuous vigilance, but the result of such effort can be a satisfactory level of U.S. cotton exports in the years ahead.

Production and Export Availabilities

In forecasting world cotton production and export availabilities, a large number of variables are involved. There are the natural factors of weather, insects, and diseases; the changing state of the arts in cotton production, economic considerations, such as the general level of economic activity and factors affecting the actual and relative levels of price; political considerations affecting internal production policy and the flow of goods in world commerce; problems of geography, since cotton is produced in some

threescore or more countries; and the human factor. Yet projections based on certain assumptions concerning at least some of these variables can be not only usable but quite helpful.

It is generally expected that U. S. cotton acreage and production in 1959-60 will rise appreciably above 1958 levels. This belief is based on two facts: the termination of that part of the Soil Bank Program under which nearly 5 million acres of land were held out of cotton production in 1958; and the provisions of the Agricultural Act of 1958 that give farmers the option of exceeding their base allotment by as much as 40 percent. Thus for some years to come there promises to be ample U. S. cotton on hand to meet all foreseeable demand.

Cotton production is trending upward in many foreign producing countries. This fact is reflected in the past levels of production, in the expansion plans of some countries, and the manner in which resources are being mobilized to achieve cotton production goals.

Among the countries that have shown the most important gains above their 1950-54 averages are 4 that have more than tripled their production by 1957 or 1958 and 9 more that have at least doubled their 1950-54 average. These 13 countries, in the aggregate, have increased their production from just over 700,000 bales in 1950-54 to about 1-2/3 million bales at the present time.

As impressive as these gains are, they are dwarfed when compared with increases during the same period of nearly 2 million bales in Mainland China, about 1-1/4 million bales in the USSR, slightly over a million bales in India, and about three-fourths of a million bales in Mexico. On balance, total foreign production has increased since the 1950-54 period from slightly over 23 million bales to 29-1/4 million, or 26 percent. Communist countries showed a 35-percent increase, while other foreign countries increased production 21 percent. Meanwhile, cotton production in the United States declined over 3 million bales, or 22 percent, and in Brazil it declined a third of a million bales, or 23 percent.

From the standpoint of the role that the increased production plays in the various countries, a number of different patterns emerge. Some countries are encouraging expansion with a view to bringing their production more nearly in line with the raw cotton requirements of their domestic textile industry. Others, especially the French and Portuguese areas in Africa, are trying to help their mother countries reduce import requirements from outside sources. Still others generally try not to import cotton if they can avoid it, except for specialty qualities. They plan to get along, so far as their basic textile industries are concerned, with whatever cotton they can produce. Within such a policy, they know that the only way to have more cotton textiles is to produce more cotton. One more category is composed of those countries that look upon increased cotton production as a means of increasing foreign exchange earnings through exports.

Regardless of the overall considerations that may have caused governments to favor expansion of cotton production, there is also the question of how cotton looks as a source of income for the individual cultivator. Many farmers have started or expanded cotton production because farming was more profitable when they grow cotton as a cash crop. In some backward areas, agriculture was completely on a subsistence basis prior to the introduction of cotton as a cash crop. Cotton cultivation, therefore, represented a big step in the direction of a commercial agriculture.

Occasionally, cotton holds its ground as a cash crop by only a slim margin over some other commodity. At such times, even small shifts in price relationships or in conditions of production may tip the balance in favor of more or less cotton. In some parts of Uganda, the Belgian Congo, and the Ivory Coast, coffee profits in recent years have been sufficiently attractive to divert acreage away from cotton. But farmers in many other places have found cotton profitable enough to hold its own with other crops and frequently expand. In the Sudan, for example, cotton is believed to be so much more profitable than any other large-volume crop that cotton acreage continues to expand

rapidly, even though extra long staple supplies are excessive and prices are at long-time low levels.

There is every reason to believe that the forces that have caused total foreign cotton production to double in the past decade will still exert strong upward pressure in many parts of the world between now and, say, 1965. The projections, in the aggregate, point to an increase of about 25 percent in total foreign cotton production between 1957-58 and 1965-66. More than one-half of this gain would be in Communist areas. Even after a considerable discounting of their production goals, the largest gains are expected to take place in the USSR and Mainland China. Africa also is likely to post a fairly large increase, and sizable relative gains appear in prospect in most other areas. The most numerous exceptions are those countries where cotton production has never aroused sufficient interest to rise above nominal quantities. In areas where cotton has been unable to develop a following among producers during the past 10 years--a time when it has been quite profitable generally--it seems unlikely to grow in popularity in the years immediately ahead.

Foreign Consumption

There are a number of important factors bearing upon prospective foreign demand for cotton. Among these are foreign economic activity; level of living achieved abroad, including adjustments arising out of the European Common Market; population trends; elasticity of demand in underdeveloped countries; and interfiber competition. In the following projections for foreign consumption, it is assumed that economic development will continue in the underdeveloped countries as well as elsewhere, with consequent gains in levels of living. It is also assumed that there will be greater relative increases in the underdeveloped and less industrialized countries than in the more highly industrialized countries, and that there will be no major war or depression.

The combined effect of population growth and gains in per capita consumption fore-shadows a level of cotton consumption outside the United States that seems likely to



Above, mounds of seed cotton are built up at gins, for year-round ginning.
Right, Russian cotton scientist in central Asian field, September 1958.



Desert area of Russia is being leveled for irrigated cotton.
(Photographs taken by FAS cotton specialist Chas. H. Barber.)

materially exceed total foreign production of cotton. If the differential rates of population increase in the various parts of the world are taken into account and per capita consumption is by assumption held constant at the latest levels reported by the Food and Agriculture Organization, the single factor of population gains would account for an annual foreign cotton requirement in 1965 that would be 5 million bales greater than in 1956. Per capita consumption levels are also rising in most parts of the world outside of the United States as a part of the general rise in levels of living. In some areas, particularly the USSR and Mainland China, expanded cotton production may permit per capita consumption levels to rise at a faster rate than elsewhere. In such countries in the past, quantities of cotton textiles available for home consumption have been governed primarily by the quantity of raw cotton they could produce and transform into textiles. Should these projections be borne out, it would mean that total foreign cotton consumption would continue to run considerably in excess of total foreign production of raw cotton. The level of exports from the United States would in that event compare favorably with that of recent years.

Competition from Man-Made Fibers

Any evaluation of the future foreign market for U. S. cotton must consider the extent to which other products are competing with cotton for numerous end-use markets. Although paper and plastics have eroded cotton markets to some extent, man-made fibers of all types seem to be making the most serious inroads.

Of the man-made fibers, the most important single competitor is rayon¹ staple, which can be processed on cotton spinning and weaving equipment and used straight or in blends for many products that are traditionally made of pure cotton. This material commands a substantial price advantage over cotton in all countries.

The production of rayon and acetate staple fiber outside the United States has expanded steadily since 1952, reaching an equivalent of 6.4 million bales of cotton in 1957. The rate of production expansion has tended to decline since 1953; nevertheless, production more than doubled between 1952 and 1957. Plant capacity has been moving upward, particularly in the United Kingdom and Japan. In the United Kingdom, the large staple fiber plant that has been under construction for several years has now been completed and adds greatly to capacity. Japan also has been expanding at a rapid pace. Additions to plant capacity planned throughout the world for 1959 are much smaller than for any recent year.

At present, the traditional rivalry between cotton and rayon staple seems to be further complicated by a new circumstance in which noncellulosic fibers are invading the end-use markets of both cotton and rayon staple. In the past, nylon, Orlon, Dacron, textile glass, and acrylic fibers have competed almost exclusively with wool and silk; however, cotton now feels their competition, and there is every indication that this trend will continue even more forcefully in the future. Production of noncellulosic staple fiber outside the United States totaled 136 million pounds in 1957, compared with 8 million pounds in 1950. Plans call for a total of 364 million pounds of plant capacity in foreign countries by the end of 1959. The largest expansion is to take place in Japan, where the addition of more than 110 million pounds of noncellulosic staple capacity within 2 years will bring Japan's annual production capacity for this type of fiber to 171 million pounds.

To a greater extent than in the case of rayon and acetate, raw materials required for noncellulosic textile fibers are generally found within the producing country. This gives rise to the argument that the production and domestic use of these fibers conserves foreign exchange that might otherwise be spent to import natural fibers or finished textiles.

¹The Federal Trade Commission ruled December 11, 1951, that the term "rayon" was to be applied to "only those man-made fibers manufactured from regenerated cellulose"; the term "acetate" was to be used for "man-made fibers composed of cellulose acetate".

The booming expansion of man-made fiber production in the major textile countries of the world--traditionally some of the best markets for U. S. cotton--offers an insight into the textile fiber consumption patterns of the future. According to the Food and Agriculture Organization, world consumption of apparel fibers in 1949 was divided by types as follows: cotton, 73 percent; wool, 13 percent; and rayon, 14 percent. By 1956, the proportions had changed to: cotton, 68 percent; wool, 10 percent; rayon, 19 percent; and noncellulosics, 3 percent. Consumption of all textile fibers rose 37 percent from 1949 to 1956, with consumption of cotton increasing 33 percent during this period.

There is indication of a comeback for cotton since mid-1956. This can be attributed to several factors: U. S. cotton's competitive export price, which reduced the advantage held by rayon; increased emphasis on research and market promotion; and commercialization of attractive finishes, giving new end-use qualities to cotton products.

In the future, cotton will be confronted on a broader scale with competition from man-made fibers, especially the noncellulosic types. The extent to which cotton maintains or improves its markets of tomorrow will depend largely on the relative prices of the various fibers and on the extent to which increased research findings that improve the attractiveness and utility of cotton products are made known to consumers through promotion activities.

There is some possibility that certain end-use markets for cotton can actually be expanded by blending cotton with complementary cellulosic and noncellulosic fibers, as developments in this field come into general use. Such an opportunity exists particularly in blended winter suiting fabrics, blended summer suiting fabrics having wash-and-wear characteristics and permanent crease, and winter cottons for women's clothing, with warmth and suppleness provided by the newer man-made fibers.

Foreign Economic Activity

The vital influence of foreign economic activity upon the sale of U. S. cotton abroad was brought into sharp focus during 1958, when a general economic recession was experienced throughout a number of important industrial countries, particularly Belgium, West Germany, and the United Kingdom. Actually, the level of industrial production in most countries was well over all previous years except 1957, when new highs had been reached in economic activity resulting in part from the Suez and Hungarian crises. During the early part of 1958, however, retail trade in many countries reflected cautious buying on the part of the public--a tendency more pronounced for clothing and household textiles than for other types of consumer items.

Added to the recessive effect of softened domestic demand in textile producing countries there was a general shrinking of cotton textile exports from the highs of 1957, since consumers in textile-importing markets were acting very much like those in the exporting countries. These factors snowballed into out-of-proportion reactions on the importation of raw cotton in practically every major textile-producing country except France. Mill inventories of finished cotton goods and yarns rose to excessive levels, especially in Japan and India. In Japan, yarn production was curtailed 30 percent by government order. In other countries, smaller adjustments were made in mill production schedules. Partly in expectation of lower cotton prices, and partly in view of unfavorable domestic and export sales prospects, mills confined their raw cotton buying largely to current needs.

At the beginning of the 1958-59 crop year, U. S. exports of cotton began to turn downward. Shipments during the months of August through November 1958 totaled only 916,000 running bales, half as much as was shipped in the corresponding period of last season.

Probably the downswing in U. S. exports is exaggerated in relation to the actual foreign economic situation and the actual rate at which U. S. cotton is being consumed abroad. Improvement in the textile situation, expected in 1959, may well be followed by an upswing in U. S. cotton exports, depending on price relationships.

Foreign Exchange Availability

As a factor in the demand for U.S. cotton, foreign exchange availability is as important in the short range as the level of foreign economic activity, and even more important in the long range. In the years immediately after World War II, many of the countries whose economies had been seriously disrupted by the war found it highly desirable, if not absolutely necessary, to import more from dollar areas than their dollar earnings and foreign exchange balances would cover. U.S. loans and other foreign aid programs made it possible for numerous countries to import sizable quantities of U.S. cotton. The early restoration of textile production added materially to the general economic recovery of these countries. Not only was employment provided in the textile industry itself, but the existence of clothing and other textile products in the retail establishments gave workers in all lines of economic activity a needed incentive. In some countries, textiles once again became an important earner of needed foreign exchange.

Some countries for a variety of reasons still have a shortage of dollars in relation to their demand from dollar areas. The Agricultural Trade Development and Assistance Act of 1954--known as Public Law 480--and Section 402 of the Mutual Security Act of 1958 made it possible for dollar-short countries to supplement their dollar imports of agricultural and manufactured goods. While Public Law 480 is basically an instrument for moving surplus supplies of U.S. agricultural commodities, it offers dollar-short countries an opportunity to obtain cotton with local currency and by other means. Sizable quantities of cotton also have moved abroad on the basis of Export-Import Bank credits and a small quantity has been financed by means of credit extended by the Commodity Credit Corporation. If cotton were not available under such U.S. Government programs, these countries would probably import less U.S. cotton, increase their efforts to purchase more cotton from nondollar sources, and encourage the production and use of man-made fibers. However, recent convertibility actions will lessen dollar shortage problems.

The governments of cotton-importing countries have used barter and bilateral trade agreements as a means of obtaining cotton and at the same time guaranteeing export outlets for their industrial and agricultural products. Although this may reduce the quantity of U.S. cotton exported to a particular country, it does not necessarily reduce the overall quantity of U.S. cotton shipped abroad. Producer countries using such agreements usually manage to dispose of most of their crops each year and thereby avoid large carryovers.

For several years, the Communist Bloc as a whole was more or less self-sufficient in cotton. More recently, Communist Bloc countries have resumed trading in cotton outside the Bloc. Such sales are usually made by barter or bilateral trade agreements. In this connection, it is interesting to note that the USSR exported no raw cotton outside the Bloc from 1947 through 1952, but since 1954 its exports to non-Communist countries and Yugoslavia (not including Poland) have totaled 200,000 to 300,000 bales annually, representing from 15 to 25 percent of its total cotton exports.

An example of the barter dealings of the USSR shows their effect. Late in 1958, the USSR agreed to take 2,500 metric tons of Japanese rayon staple fiber, a product that at the time was glutting the Japanese market. The contract provided for payment in an equivalent value of goods; and raw cotton headed the Russian list of offerings, though the USSR had shipped a total of less than 500 bales of cotton to Japan in the past 11 years. Since Japan has accepted some Russian cotton, U.S. exports of cotton to Japan will probably be adversely affected.

Government encouragement of cotton and man-made fiber production is in some cases resorted to as a technique in combatting foreign exchange shortages. Some traditional customers for U.S. cotton are reducing foreign exchange requirements for the purchase of cotton by government assistance to local producers of cotton. India, Spain, and some South American countries have followed this course. These countries and others have given government assistance by tax concessions and other means for the development of man-made fiber industries. The net foreign exchange savings may be over-

estimated, however, since both of these programs may require sizable amounts of foreign exchange. To begin or expand production of man-made fibers requires in many instances the importation of machinery and raw materials and the purchase of technical know-how. Similarly, to increase and improve cotton output generally requires the importation of farm machinery, improved seed, fertilizer, insecticides, and ginning equipment.

Actions of Other Governments

Cotton is of significant economic importance in large numbers of countries. It is not surprising, therefore, that cotton and the textile industry come in for public actions that have a direct or an indirect effect upon the demand for U. S. cotton. In many cases, the actions are taken with an intent to affect raw cotton and/or the textile industry of the particular country. At other times, the action is directed at some broader aspect of the national economy, and although cotton was not the primary objective, the influences on it can be far-reaching.

This latter type of action is well illustrated by the kinds of programs that have been instituted by countries that are experiencing serious foreign exchange difficulties. Colombia is a case in point. As long as the official exchange rate remained at 2.50 pesos per dollar, it was comparatively inexpensive for Colombia to cover its import requirements for raw cotton. With the shift in exchange rates to the more realistic 7.50 pesos per dollar, imported cotton became much more dear in terms of pesos. Related to this are certain of Colombia's import regulations that contribute to raising the real cost of importing cotton, textile machinery, and other products. While Colombia is used for illustrative purposes, various other countries could have served equally well.

One action by other countries that promises to have far-reaching consequences on world trade in general is the establishment of the European Economic Community (the Common Market). Although this organization came officially into being on January 1, 1958, the agreed-upon time table provides that it will be some years before the treaty provisions become fully operative. Italy is the only one of the six member countries that has a duty on imports of raw cotton. The rate in this case is 6 percent ad valorem. The Common Market treaties provide that cotton will be on the free list. Most of the impact of the Common Market upon the foreign demand for U. S. cotton therefore will be indirect rather than direct. It will depend upon such matters as the strength of the textile industry within the Common Market area, as related both to other sectors of the economy within the area and to the textile industries of other countries. Furthermore, some improvements in levels of living may result from the union.

A completely different type of action that affects the flow of cotton into individual importing countries is illustrated by the voluntary restraint program under which Japan has limited cotton textile exports to the United States. Under such an arrangement, the government of the exporting country assumes responsibility for enforcing the program. The present quota system for exports of Japanese textiles to the United States grew out of a period when these exports were having such a demoralizing effect upon the U. S. market that action had been filed under the escape clause of section 7 of the Trade Agreements Extension Act of 1951 to raise the duty on cotton velveteen and legislation had been introduced in Congress aimed principally at Japanese goods to restrict the import of cotton textiles.

Japan's willingness to take action and to establish voluntary quotas acceptable to U. S. interests induced the President to disapprove the Tariff Commission's recommendation for a duty increase of 25 to 50 percent on cotton velveteens. Japan's original voluntary restraint program applied to exports during 1956; and this type of program has continued in effect.

During the past few years, the textile and garment manufacturing industries of Hong Kong have been developing faster than those in any other part of the world. Practically all of Hong Kong's textiles are exported. Hong Kong residents rely heavily upon low-

quality imports from Japan and Mainland China for their own domestic needs. Hong Kong, a British Crown Colony, enjoys Empire preference in all British areas; and it is in these areas that its exports have had the greatest impact. The rather sudden entry of Hong Kong products into various import markets has had a significant influence on (1) the domestic textile and garment industries of the importing countries and (2) the traditional suppliers of areas dependent upon textile imports, mainly the United Kingdom and Japan. In recent months, the United States also has felt the impact of Hong Kong exports, and there is evidence that the rate of U.S. imports will continue sharply upward in the near future.

After several previous attempts had failed, steps were again taken in the fall of 1958 by a United Kingdom industry delegation to negotiate an agreement with producers in Hong Kong for a voluntary limit on their textile exports to the United Kingdom. The plan, announced in January 1959, provides for a ceiling on the quantity of cotton piece goods shipped by Hong Kong to the United Kingdom for the next 3 years.

From an overall standpoint, such agreements between countries producing and countries importing cotton textiles may be beneficial. However, programs of voluntary restraint are almost certain to reduce the total demand for raw cotton. In the exporting country, except during periods of general textile shortage, an arbitrary reduction of goods flowing to one market will in time cause a reduction of about the same size in output and, in turn, in raw material requirements. In part, this reduction presumably will be offset by a higher level of mill consumption in the importing country and its normal suppliers. However, the kind of intense competition that gives rise to the pressure for such restraint programs is customarily triggered by a significant price difference. Thus, total cotton consumption is almost sure to be reduced by the imposition of such voluntary restraint programs; for these programs have the corollary effect of maintaining higher prices than would prevail without the restraint. Also, if the textile exporting country involved is a good customer for U. S. cotton, the foreign demand for that cotton will be reduced.

A still different type of government action that adversely affects the export demand for U. S. cotton is illustrated by the state trading practices of the U.S.S.R. with respect to exports of raw cotton and those of Red China with respect to exports of textiles. In both countries, trade decisions are guided largely by political considerations, in the light of trade requirements and foreign relations with individual countries. A further discussion of this type of government action appears in the section dealing with foreign exchange considerations as they affect the demand for U. S. cotton.

Prices

Stability of world prices is a major factor affecting cotton trade and consumption levels. The stabilizing effects of the U. S. cotton export programs that began in 1956 are generally known and accepted. Between the time our export programs were initiated and the leveling-off period associated with the recent let-down in business activity, foreign cotton consumption rose continuously to new record high levels.

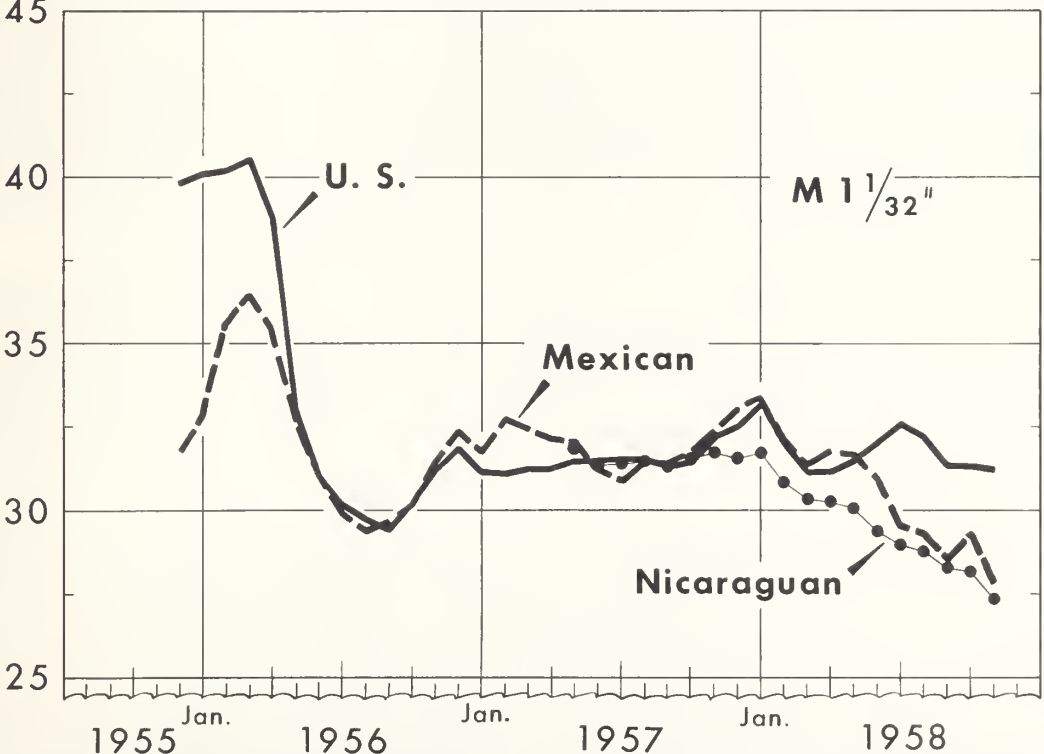
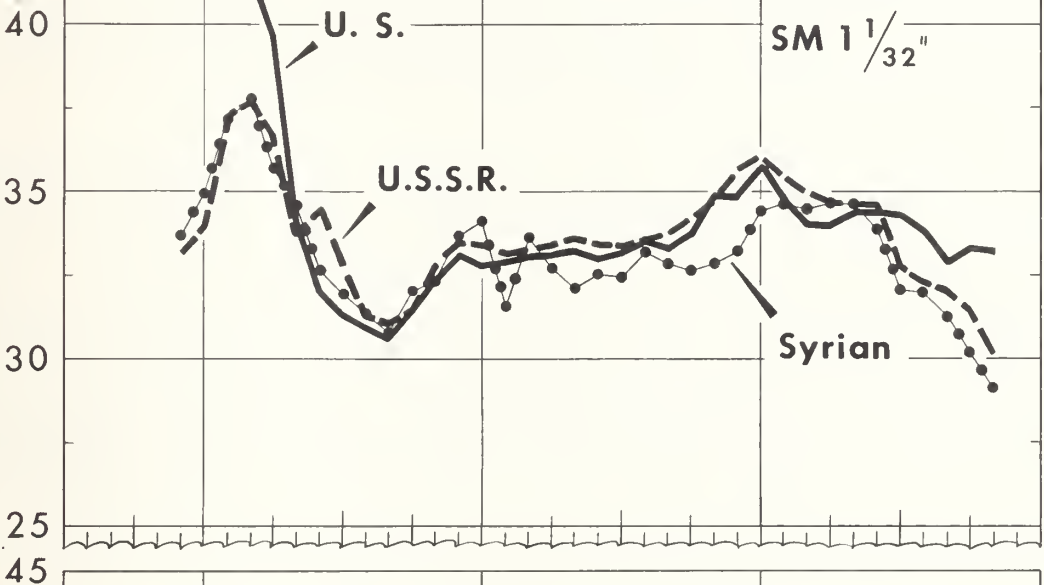
The price stability established by the programs restored market confidence, and inventories in consuming countries rose to normal levels. World trade increased; thus, foreign exporters, contrary to their earlier fears, generally were able to dispose of surpluses in 1956-57 and 1957-58 at favorable prices. Prices for typical growths and qualities of upland-type cotton in import markets rose by early 1958 to levels around 4 cents a pound above the low point in the fall of 1956 and stood about 2 cents above the levels prevailing late in 1955, before the advent of the export programs.

As prices rose and remained competitive, except for temporary widening of quality differentials for higher U. S. grades, foreign disappearance continued to exceed production and the U. S. surplus declined about 2-3/4 million bales, or 24 percent, during the 1957-58 season. By late spring of 1958, increasing inventories of textiles in foreign consuming countries were reflecting weaker consumer demand. Concurrently, markets weakened under pressure of substantially larger new-crop supplies in important foreign exporting

COTTON PRICES DECLINING ON WORLD MARKETS

¢ PER LB.

LIVERPOOL C.I.F. PRICES
MONTHLY AVERAGES
DEC. 1955 TO DATE



USDA

FAS-NEG. 1825

countries and a prospective increase in U.S. production in 1959. As importers limited purchases to nearby needs, import market prices by early fall of 1958 declined about 2 cents a pound for representative qualities of U.S. and up to 5 cents for certain qualities of other growths.

Although the outlook points to about a 40 percent decline in U.S. exports this season, there are encouraging factors. Industrial activity and gold and dollar reserves in most major importing countries are at favorable levels. USDA announcements indicating a continuation of current export sales policy and discontinuance of carrying charges had steadying effects on U.S. cotton prices. Foreign cotton prices strengthened temporarily, but have since declined further as larger new-crop supplies moved in fairly heavy volume. Consumer demand, especially in most foreign countries, is expected to strengthen in the second half of the season as inventories of textiles are worked off and plentiful supplies of cotton move to market at somewhat lower prices than a year ago.

Price behavior in the years ahead will have an important bearing on the future of cotton in general and upon the outlook for each of the various important growths of cotton. The importance of both the stability and level of cotton prices as factors affecting the competitive position of cotton and man-made fibers has already been discussed. Some reference to price has also been made in discussing the expansion of cotton production in foreign countries. In some countries, periods of sharply higher prices, such as the one following the outbreak of the Korean War, have triggered sharp expansions in foreign acreage and production, and once cotton acreage has been expanded, it demonstrates strong holding power. The foreign countries most likely to curtail cotton production as a result of a decline in cotton prices are those where production involves quite sizable cash outlays for farm machinery and items used in farm production, and those where there are alternative crops to which farmers can turn for a profit. Since apparently price changes can more easily stimulate foreign cotton acreage than shrink it, there is reason to believe that United States cotton farmers stand to benefit more from generally stable world cotton prices than from wide fluctuations in prices, even though the prices "average out" at the same level.

In recent years there has been considerable evidence that the U.S.S.R. and Communist China can trade in cotton or cotton textiles in a manner that has a most demoralizing effect upon world prices and trade. An example is the Russian purchases of Egyptian cotton at a high price during the Suez crisis, and the reported subsequent resale of some of the cotton into Western Europe at prices that tended to undermine the price level for extra-long staple cotton. Mainland China's current drive to push textiles is also a case in point. In some markets, it is reported that the Red Chinese have recently offered textiles at prices that would barely cover the raw material cost.

The ability and willingness of these countries to make use of cotton and cotton textiles as a political and economic weapon is disconcerting, to say the least. What is even more serious is that their rapid expansion of production in the years ahead may well increase their capacity to handle the supplies at their disposal so as to exert an increasingly demoralizing influence on world markets whenever and wherever it promises to be to their economic or political advantage to put these commodities into export channels.

Domestic Developments

In recent years, several things have happened here at home that will affect the competitive position of U.S. cotton in foreign markets in the years ahead. Three will be dealt with in this report: The Agricultural Act of 1958; the development of a high quality and high yielding variety of American-Egyptian cotton; and the special export programs (see the section on market development).

The Agricultural Act of 1958 may well have a marked effect on the competitive position of U.S. cotton in foreign countries, even though its more immediate and greatest effect promises to be on the domestic front. The level of acreage allotments in 1959 and 1960 will be at least 16.3 million acres, or more than 4 million above the indicated

harvested acreage this season. In addition, farmers who are willing to accept the lower of two price support levels may exceed their allotments by up to 40 percent in 1959. The Secretary of Agriculture is empowered to permit a similar overplanting in 1960, should he consider it advisable to do so on the basis of supply and demand conditions. Without a change in the legislation, the allotment of 16.3 million acres will constitute a minimum after 1960, unless there is either a sharp downturn in yields or a sharp upturn in disappearance.

Such a minimum acreage allotment in the years ahead, plus the opportunity to overplant to a certain extent without penalty in 1959 and possibly again in 1960, will make it certain that there is no shortage of U. S. cotton in the years ahead. Since the legislation requiring that U. S. cotton be available for export at competitive prices continues in force, there should be no doubt in any quarter, either at home or abroad, that the United States expects to maintain a strong position in the export market. The overall policy is quite clear. If ambiguity exists, it is not with respect to the general cotton export policy of the United States but only with respect to the details of implementation.

Other provisions of law enacted in recent years relating directly to the problems of exporting U. S. cotton are treated in considerable detail in the section on building world markets.

The development, and now the general growth, of Pima S-1 cotton may well have some far-reaching consequences on world production and trade of extra-long staple cotton. Previously, the American-Egyptian varieties lacked the quality and yield characteristics to enable them to compete with both Upland cotton at home, when it came to income, and imported Egyptian on a quality basis. It is not surprising, therefore, that in this earlier period U. S. producers were not considered a reliable source of supply of extra-long staple cotton.

The emergence of Pima S-1 as the dominant U. S. extra-long staple variety has done much to change this situation. From a quality standpoint, this cotton equals or excels other growths of extra-long staple cotton. It seems possible, therefore, that a policy of making Pima S-1 available to other countries at prices that are competitive with corresponding foreign growths might be a means of developing a modest export market. It should be recognized, however, that world production of extra-long staple cotton is out-running world consumption, and that prices of Egyptian, Sudanese, and Peruvian cottons are at the lowest levels in many years and far below U. S. support levels for American-Egyptian cotton.

BUILDING WORLD MARKETS FOR U. S. COTTON

Export Programs

For the past 20 years there have been various U. S. Government programs to help finance the export of cotton. The financial aid has taken a number of different forms, including gifts and grants under Lend-Lease, UNRRA, Army Civilian Relief, and the Mutual Security Program; loans and credits by the Export-Import Bank and CCC; sales for foreign currencies under Public Laws 665 and 480; barter programs; cash payments to exporters; and sales from CCC stocks for export at competitive world prices. Although some of these programs were designed to achieve far broader objectives, in the aggregate they have, in effect, made major contributions to U. S. cotton exports.

To the extent that cotton has been involved in these various programs, emphasis has been on helping the countries obtain the raw cotton they needed to achieve and maintain as high levels of domestic cotton textile production as market conditions for textiles would justify. A most significant additional feature added by Public Law 480 was the use of some of the local currencies arising out of this program to promote the increased use of cotton textiles, so that the total market for cotton in the years ahead will be larger than would otherwise be the case (see section on market promotion programs).

The most important assistance to exports since January 1956 has been the sales of CCC stocks of cotton for export at competitive world prices. Sales prices have averaged about 6 to 7 cents a pound below domestic market prices. Practically all of the cotton exported since August 1, 1956, has been under the CCC export sales program. In addition, the actual foreign sale of many of these lots of cotton has been financed under one of the programs mentioned previously.

Foreign mills are able to buy U.S. raw cotton for several cents a pound less than the price paid by the U.S. mills. To provide parity of treatment between the foreign and the U.S. mills producing textiles for export, CCC initiated an export payment program for cotton textiles. The payment is applicable to the raw cotton equivalent of the textiles, and the rate is based on the spread between the domestic price of cotton and the price at which CCC sells raw cotton for export.

Since 1953-54 several changes have occurred in the nature and extent of government assistance to cotton exports, a significant proportion of the assistance being sales for foreign currencies under the Mutual Security Program and P.L. 480. During the 4 marketing years 1954-55 to 1957-58, export sales under Title I of P.L. 480 and sales under the Mutual Security Act have ranged from a high of 52 percent of total exports in 1955-56 to a low of 27 percent in 1957-58. Dollar sales in the same period varied from 45 to 68 percent of total exports. U.S. exports under barter arrangements have been increasing, and for the past 2 years have averaged about 10 percent of total exports. These programs assist in strengthening the economies of countries which are traditional markets for the U.S. cotton abroad, and help maintain a fair share of the foreign market for U.S. cotton.

TABLE 2.--Cotton: U. S. exports under designated programs, exports for dollars, and total exports, fiscal years beginning July 1, 1954-57

Year beginning July 1	Public Law 480, Title I and II ¹	Mutual Security Program ²	Barter	Dollar exports		Total exports
				Export- Import Bank loans	Total ³	
	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales
1954.....	63	1,085	2	307	2,466	3,616
1955.....	497	625	51	334	966	2,139
1956.....	1,383	857	967	⁴ 421	4,108	7,315
1957.....	889	662	465	727	3,650	5,666

¹ Includes the following for famine relief and other assistance under Title II: 1954-55, 5,000 bales; 1955-56, 28,000 bales; 1956-57, 1,000 bales; 1957-58, 26,000 bales.

² Bales estimated from records maintained by the Cotton Branch, International Cooperation Administration on a dollar basis.

³ Includes Export-Import Bank loans, CCC credit sales, cash dollar sales, and adjustments for differences in reporting data.

⁴ Includes 3,000 bales exported under CCC credit program; no exports under that program in other years shown.

Market Promotion Programs

After the enactment of the Agricultural Trade Development and Assistance Act of 1954, which provided for the use of foreign currencies obtained from the sale of surplus commodities to develop markets for U.S. farm products, the Foreign Agricultural Service and Cotton Council International, a subsidiary of the National Cotton Council of America, undertook a cooperative program to promote greater consumption of cotton

in foreign countries. The program was planned so that the cotton industries in foreign countries would assume joint responsibility for financing and carrying out specific projects. The market development effort was aimed at increasing the total consumption of cotton products, and is based upon the premise that the expanded demand will result in a larger market for both U. S. cotton and U. S. cotton products.

Since January 1956 cooperative cotton market promotion projects with industry organizations have been started in the following countries:

Austria	Netherlands
Belgium	Japan
Finland	Spain
France	Switzerland
Federal Republic of Germany	United Kingdom
Italy	

These 11 countries represent a population of more than 235 million people who consume over 10 million bales of cotton.

In addition to these country programs now in progress, the Cotton Council International and the Foreign Agricultural Service have agreed to the development of programs in these 17 additional countries, for which funds have already been earmarked:

Australia	India	Peru
Brazil	Indonesia	Portugal
Burma	Korea	Sweden
Chile	Mexico	Thailand
Colombia	Pakistan	Turkey
Greece	Philippine Republic	

This list includes both cotton-producing and cotton-importing countries. In countries producing most of the cotton they consume, emphasis will be placed on programs to expand domestic use. Exporting countries will be encouraged to join with the Cotton Council International and similar organizations in developing market promotion programs in cotton importing countries.

The experience to date with cotton market promotion programs in Western Europe and Japan have been most encouraging. Through the use of an outstanding color movie entitled "Cotton: Nature's Wonder Fiber," style shows, modern advertising and display techniques, and training of sales people, cotton has been made the center of the apparel stage. Its versatile properties have been emphasized in household and other uses. Significant progress has thus been realized in promoting cotton and in improving its competitive position with other fibers.

The cotton market promotion program is being developed on a continuing basis. At present, the foreign industry organizations finance one-half of the costs of the projects, and the other half is financed with foreign currencies available from the sale of surplus agricultural products under Public Law 480. The foreign trade groups are proceeding on the theory that after several years of cooperative experience in promotion work, they will continue the projects with their own private industry financing.

Judging by the success of cotton promotion experience in the United States and the interest shown by cooperating groups in foreign countries, there is every reason to believe that the foreign cotton promotion program will be a major factor in building export markets for U. S. cotton.

Note should be taken of some other work being done in various countries to promote the increased use of cotton and cotton products. Some of these programs are conducted on behalf of the cotton textile industry of a country, such as the "Buy British Cottons" campaign; others promote a particular growth of cotton, such as Egyptian long-staple or



American and Japanese beauties sponsored by two farm commodities important in world trade--dairy products and cotton--meet in the U.S. agricultural pavilion at the Japan International Trade Fair, Tokyo. Left, Shari Lewis, American Dairy Princess, and Yoko Yago, Japan's Miss Cotton.

Pima cotton; while others advertise the brands of particular cotton textile firms. Common to all of these programs is the emphasis on the attractiveness, utility, and economy of products made of cotton.

Market Information and Services

Comprehensive and continuing information on cotton production, marketing, and utilization in foreign countries is basic in the further development and maintenance of export markets for U.S. cotton. The Foreign Agricultural Service regularly receives information on current developments in foreign countries and publishes it weekly in Foreign Crops and Markets. In addition, circulars issued on a regularly scheduled basis contain analyses and statistics on foreign production, stocks, trade, consumption, and prices. Special publications and analyses on various aspects of the world cotton situation and outlook are prepared from time to time. These publications go to all segments of the U.S. cotton industry and to interested groups abroad, and are widely reprinted. Special reports are issued and feature articles prepared for publication in Foreign Agriculture, as well as in the International Yearbook of The Cotton Trade Journal and other trade publications.

In part, the above-mentioned reports and publications are based upon on-the-spot studies of developments affecting the cotton producing and consuming industries in the various parts of the world and the impact such developments may have upon the foreign demand for United States cotton.

In addition, basic information, reports, and data come from U.S. agricultural attachés and agricultural officers at some fifty posts all over the world and from embassy officers at still other posts.

Through these reports and the personal contacts with trade and industry groups at home and abroad it is possible to keep in constant touch with developments in the cotton producing and consuming areas of the world. This information provides a realistic basis for evaluating market conditions and trends, and guides the development of marketing

activities and programs of the U.S. Government and industry aimed at building and maintaining the foreign market for cotton.

Market Surveys

The personnel of the Cotton Division of FAS maintain contact with U.S. Government agencies, the U.S. cotton trade, the governments and trade groups in foreign countries, and international organizations concerned with cotton. Surveys are made annually in principal foreign cotton-importing nations to study and evaluate market conditions and prospects for U.S. cotton. Less frequent surveys are made in cotton-producing countries and of interfiber competition in important textile-producing countries. These firsthand surveys provide a basis for a more comprehensive appraisal of governmental programs and activities of private trade in developing and maintaining foreign markets for U.S. cotton.

In addition, Cotton Division personnel serve as good-will ambassadors for U.S. cotton. They give information to the foreign trade groups on the types and qualities of cotton that are available, on grading and quality testing services, and on the latest developments of research on cotton marketing and utilization. Staff members also keep foreign governments and cotton industry groups and organizations informed of the various programs and policies of the U.S. Government. Through their periodic visits and consultations, they provide the kind of liaison with foreign cotton producing and importing countries that contributes to further building and maintaining world markets for cotton.

Technical Services

The Cotton Division of FAS carries on a technical liaison service program with foreign buyers and processors. This program has become an important means of promoting interest in the superiority of U.S. cotton. It is a multi-purpose undertaking, including technical service clinics where results of applied research leading to more efficient utilization of U.S. cotton are demonstrated and explained to textile processors. Also, discussions are held concerning new developments in manufacturing technology, testing instruments, and processing machinery. Similar conferences are held with importers, research institutes, manufacturers' associations, and other interested organizations.

The technical liaison service program has been enthusiastically received as a "grass roots" method of developing customer interest in U.S. cotton. In an effort to further strengthen this program, consideration is being given to small-scale cooperative applied research projects which may be undertaken with foreign processors, to assist in the optimum use of U.S. cotton.

Marketing Research

In the United States, research has long been recognized as contributing to market improvements and expanded utilization of cotton and other farm products. In the case of cotton, emphasis has been placed on improving methods of quality evaluation; developing new uses, finishes, and fiber treatments; improving ginning and processing technology; and studying consumer preferences and merchandising and handling practices.

Despite the fact that there has been less research along these lines in foreign countries than in the United States, opportunities for expansion in such work abroad offer considerable promise. The Cotton Council International and cooperating industry groups have made a good beginning in research on consumer preferences and market trends for specific classes and types of cotton products, for use in guiding the industry's sales promotion and advertising programs.

During 1958, special projects of the Foreign Agricultural Service relating to cotton included a study of the American cotton bale package problem in foreign countries, a study of interfiber competition in some of the largest European markets for U.S. cotton, and surveys of the cotton industries of the Soviet Union and certain South American countries.

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